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Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 DODE-00 PM-04 H-01
L-03 NSC-05 PA-01 PRS-01 SS-15 STR-04 /089 W
----------200310Z 016522 /72
P 192339Z APR 77
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC PRIORITY 3180
INFO AMCONSUL MONTREAL
ALL OTHER CONGENS IN CANADA (BY POUCH)

C O N F I D E N T I A L SECTION 1 OF 2 OTTAWA 02864

E.O. 11652: GDS
TAGS: EFIN, CA
SUBJECT: FEDERAL VIEWS ON QUEBEC BORROWING REQUIREMENTS

REF: QUEBEC 153, 154, 157

1. SUMMARY: FEDERAL FINANCE OFFICIALS BELIEVE QUEBEC DIRECT BORROWING REQUIREMENT WILL BE WELL IN EXCESS OF DOLS 900 MILLION ANTICIPATED IN BUDGET MESSAGE (SEE REFTELS). FINANCE DEPARTMENT ESTIMATES PROVINCE AND ITS AGENCIES, INCLUDING HYDRO-QUEBEC, WILL NOT BE ABLE TO MARKET BONDS WORLD-WIDE IN EXCESS OF DOLS 1.5 BILLION. END SUMMARY.

2. FEDERAL DEPARTMENT OF FINANCE (ROBERTSON) BELIEVES DOLS 900 MILLION DIRECT BORROWING REQUIREMENT BY PROVINCE OF QUEBEC FORECAST IN BUDGET MESSAGE IS UNDERESTIMATED. REVENUE ESTIMATE WAS BASED ON ANTICIPATED RATE OF ECONOMIC GROWTH IN QUEBEC IN 1977 OF 3.5 PERCENT, HIGHER BY ONE HALF OF ONE PERCENTAGE POINT OR MORE THAN OTHER ESTIMATES. LOWER REVENUE, ALONG WITH ANY UNANTICIPATED SPENDING INCREASES (WHICH OFTEN HAS BEEN THE CASE IN
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QUEBEC) WILL INCREASE DEFICIT AND BORROWING REQUIREMENT. DEPFIN ESTIMATES THIS COULD GO ABOVE DOLS 1.2 BILLION. BUDGET MESSAGE SAID IN ADDITION THAT HYDRO-QUEBEC (WHICH BORROWS IN ITS OWN NAME WITH GUARANTEE OF PROVINCIAL GOVERNMENT) SHOULD LIMIT ITS BORROWING TO DOLS 1 BILLION. THIS SUGGESTS A POSSIBLE TOTAL BORROWING REQUIREMENT OF AS MUCH AS DOLS 2.2 BILLION.

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3. ON THE BASIS OF CONVERSATIONS WITH BANKS AND UNDER-
WRITERS IN NEW YORK, TORONTO, AND ELSEWHERE, DEPARTMENT
OF FINANCE MAKES ITS OWN ESTIMATES OF BORROWING ABILITY
OF EACH CANADIAN PROVINCE. THESE ARE CONTINUALLY REVISED.
ITS CURRENT ESTIMATE OF THE ABILITY OF QUEBEC GOVERNMENT
AND HYDRO-QUEBEC TO MARKET BOND ISSUES (OBLIGATIONS
MATURING IN ONE YEAR OR MORE) WITH INSTITUTIONS AND
THE PUBLIC IS AS FOLLOWS:

IN CANADA DOLS 800 MILLION
IN U.S. DOLS 500 MILLION
ABROAD DOLS 400 MILLION
TOTAL DOLS 1,700 MILLION

4. AS DEPARTMENT OF FINANCE ESTIMATES LOAN REPAYMENTS
OF DOLS 246 MILLION, ITS CURRENT PROJECTION IS THAT
PROVINCIAL GOVERNMENT AND HYDRO-QUEBEC CAN RAISE ONLY
ABOUT DOLS 1,434 BILLION NET THROUGH BOND ISSUES, SOME
DOLS 400 TO DOLS 700 MILLION BELOW THEIR BORROWING
NEEDS. (IN CONTRAST, GOQ AND HYDRO-QUEBEC BORROWED OVER
DOLS 3 BILLION IN CALENDAR 1976, INCLUDING OVER DOLS
1.2 BILLION IN CANADIAN DOLLARS AND DOLS 1.7 BILLION
IN U.S. DOLLARS.)

5. DEPARTMENT OF FINANCE BELIEVES MARKET UNCERTAINTY RE QUEBEC'S
POLITICAL FUTURE IS MAIN CAUSE FOR RELUCTANCE OF MARKETS
TO ACCEPT MORE THAN AMOUNTS ESTIMATED. YIELD OF QUEBEC
BONDS REMAINFAR BELOW THAT OF OTHERS WITH SIMILAR RATING.
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DEPARTMENT OF FINANCE UNDERSTANDS MANY LARGE HOLDERS OF
QUEBEC BONDS DESIRE TO SELL THEM BUT ARE UNABLE TO DO
SO IN THE THIN SECONDARY MARKET.

6. SOME OTHER FINANCING POSSIBILITIES EXIST OTHER THAN
BOND ISSUES, INCLUDING SHORT TERM BORROWINGS AND
CONSORTIUM BANK LOANS. FURTHER NET SALES OF QUEBEC
SAVINGS BONDS ARE ALSO A POSSIBILITY, BUT REDEMPTIONS
WERE HEAVY IN THE WEEKS FOLLOWING THE NOVEMBER ELECTION
(AS PARIZEAU ACKNOWLEDGED IN HIS BUDGET SPEECH), AND
PUBLIC ACCEPTANCE OF MORE SAVINGS BONDS IS UNCERTAIN.
THEIR ABILITY TO BE REDEEMED UPON DEMAND ALSO MAKES
THEM LESS DESIRABLE FOR MEDIUM TERM FINANCING OR LONGER.

7. THE CAISSE DE DEPOT (QUEBEC'S EQUIVALENT OF THE
CANADIAN PENSION PLAN, A VERSION OF SOCIAL SECURITY)
MIGHT ALSO BE ABLE TO PURCHASE MORE THAN ABOUT THE
DOLS 500 MILLION IN QUEBEC GOVERNMENT BONDS NOW
ESTIMATED. ITS ASSETS WILL RISE BY NEARLY DOLS 1 BILLION

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IN THE COMING YEAR. IT HAS IN THE PAST KEPT ABOUT HALF ITS PORTFOLIO IN QUEBEC GOVERNMENT BONDS. WHILE THIS PROPORTION MAY HAVE BEEN RISING SLIGHTLY, IT ALSO HAS BEEN AN IMPORTANT SOURCE OF FINANCING FOR MUNICIPALITIES IN QUEBEC, WHOSE NEEDS ARE NOT EXPECTED TO DIMINISH THIS YEAR.

8. COMMENT: QUEBEC'S BORROWING PROBLEMS WERE OPENLY ACKNOWLEDGED BY FINANCE MINISTER PARIZEAU IN HIS BUDGET. WITH REAL PROVINCIAL ECONOMIC GROWTH VERY LIKELY TO BE LESS THAN THE 3.5 PERCENT ASSUMED, ITS BORROWING NEEDS OF DOLS 900 MILLION DO SEEM UNDERESTIMATED. AS FOR

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C O N F I D E N T I A L SECTION 2 OF 2 OTTAWA 02864

MARKET ACCEPTANCE OF QUEBEC BONDS, THE DEPFIN'S PESSIMISM PROBABLY REFLECTS THE VIEWS OF MOST UNDERWRITERS. HOWEVER, THE QUEBEC GOVERNMENT IS NOT WITHOUT INFLUENCE OR IMAGINATION IN OBTAINING FINANCING IT CONSIDERS NECESSARY FROM INSTITUTIONS OR THE PUBLIC WITHIN QUEBEC. WHILE UNDER CONSIDERABLE FINANCIAL PRESSURE THIS YEAR, WE WOULD NOT NOW EXPECT IT TO BE UNABLE TO MEET ITS OBLIGATIONS. ONE ALSO CANNOT EXCLUDE THE POSSIBILITY THAT SOME SCHADEFREUDE CREEPS INTO ESTIMATES OF QUEBEC'S BORROWING ABILITY MADE BY FEDERAL AUTHORITIES AND BANKS IN TORONTO. AS FOR HYDRO-QUEBEC, WHILE IT MAY ALSO EXPERIENCE PROBLEMS IN MEETING ITS NEEDS ON SCHEDULE, ITS SOLID FINANCIAL FOOTING AND REPUTATION FOR GOOD MANAGEMENT WILL REINFORCE THE LEVERAGE WHICH AS A LARGE DEBTOR IT ENJOYS OVER ITS CREDITORS. DUEMLING

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